

Missouri's Steelman joins the war on terror

Investors sometimes use their portfolios to boost pet causes, from environmental protection to socially conscious business practices. Missouri State Treasurer **Sarah Steelman** thinks that investors can also help the fight against terrorism.

Earlier this month Steelman began to screen companies that she deems terror-related from the international stock holdings of the \$27 million Missouri Investment Trust, which she chairs. The trust, which invests on behalf of arts groups in the state, is believed to be the first public fund to take such an approach.

"When we're involved in a war on terror and American soldiers are dying every day, I think Missourians expect their dollars to be invested in firms and countries that do not support terrorism," says the 48-year-old Republican, who is rumored to be considering a run for governor in 2008.

The trust's \$6 million in international equity holdings is being run through an antiterror screen it developed with Conflict Securities Advisory Group, a Washington-based consulting firm. (Previously, the investments were indexed.) The process seeks to prevent the trust from investing in companies that operate in countries the U.S. government has sanctioned for alleged terrorist connections: Cuba, Iran, North Korea, Sudan and Syria. About a dozen stocks could be removed from the international portfolio, say Missouri officials, including such well-known names as Deutsche Bank, HSBC and Royal Dutch Shell, all of which have a significant presence in Iran. (The companies either declined to comment or failed to return calls.)

Stelman says that excluding companies on these grounds is consistent with her obligation to maximize returns: "There is a certain risk that goes with investing in companies engaged with those kinds of governments. We're trying to minimize that risk and comply with our fiduciary responsibility." The trust backtested a model antiterror portfolio and found a 0.3-percentage-point improvement in performance over the unscreened fund for the five years ended in December, even after factoring in much higher annual fees: \$137,000 for the screened portfolio, compared with \$6,300 for the index fund.

Terror became a concern for Steelman soon after she became treasurer last year and discovered that a BNP Paribas subsidiary served as the top broker-dealer of overnight repurchase agreements for the state's \$3 billion cash portfolio. Earlier in 2005 a United Nations report said that BNP Paribas had failed to properly screen payments for the Iraqi oil-for-food program, which it served as escrow bank. Missouri replaced BNP Paribas with a group of competing brokers. (The bank declined to comment but in the past has called the U.N. allegations unjustified.)



Stelman: A tax on evil

Stelman then sought to impose a terror screen on the portfolio of the \$6.4 billion Missouri State Employees' Retirement System, of which she is a director, but she met stiff resistance from board members concerned about cost and complications. After a year of discussion, the board settled on a less stringent and systematic policy that so far has resulted in no divestments. The policy affects only stocks that are held by the pension fund's custodian bank and does not apply if divestments would harm the portfolio's returns or jobs in the U.S.

The compromise didn't satisfy Steelman. "We have got to put our priorities in place and show that we care about lives more than the American dollar," she says.

A handful of small institutions, mostly public pension funds and foundations, have been talking with Conflict Securities Advisory Group about setting up similar portfolio screens, according to the firm's COO, Adam Pener.

"Missouri proves that an institutional investor can pursue a terror-free investing policy in a cost-effective and nondisruptive manner," he says. "I don't think we'll be waiting for long for No. 2 and No. 3."

— Steven Brull